

# MONTHLY STABILITY TARGET MONITORING 2021

PUBLICATION DATE: 2 DECEMBER 2021



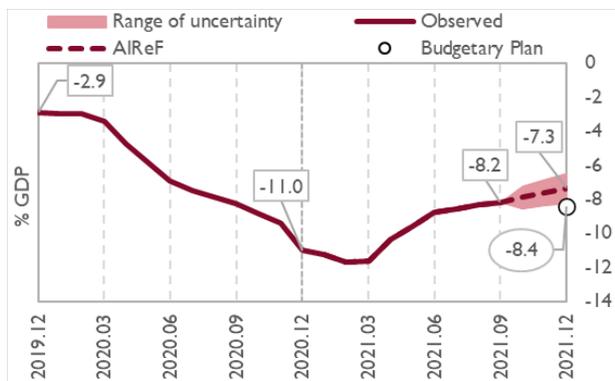
# General Government

AIReF updates its forecast for the General Government (GG) deficit to 7.3% of GDP in 2021, improving its forecast from the report on the main budgetary lines and draft budget of the GG for 2022. The tax collection data from the State Tax Administration Agency (AEAT) causes the largest revision as it shows revenue that is 0.5 points higher than in the previous scenario. In addition, the effect of higher inflation results in interest and pension expenditure being revised upwards by 0.1 points of GDP. Regarding the distribution of the deficit by sub-sector, the recently-approved transfer through which the State grants €5bn to the SSFs is incorporated, leaving the deficit of the CG at 6.2% of GDP, that of the SSFs at 1.3%, that of the ARs at 0.2%, partly offset by the 0.3% surplus of the local sub-sector.

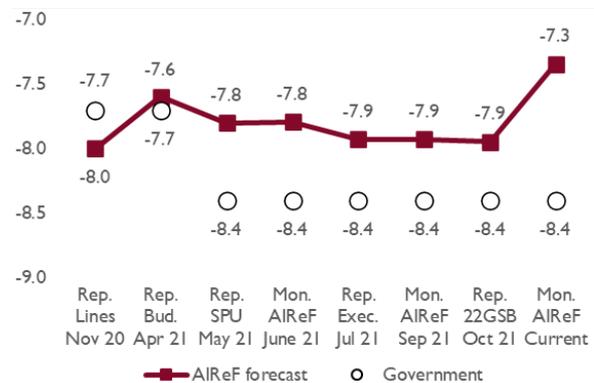
1 The pace of deficit reduction is stabilised at the accumulated figure up to September of the previous 12 months and it is expected to reach 7.3% of GDP at the end of the year, 1.1 points less than that forecast in the Government's 2022 Budgetary Plan.

2 In the process of ongoing assessment of the budget cycle, AIReF once again updates its deficit forecast from that made in October, reducing the previous forecast by 0.6 points.

**General Government deficit (% GDP)**



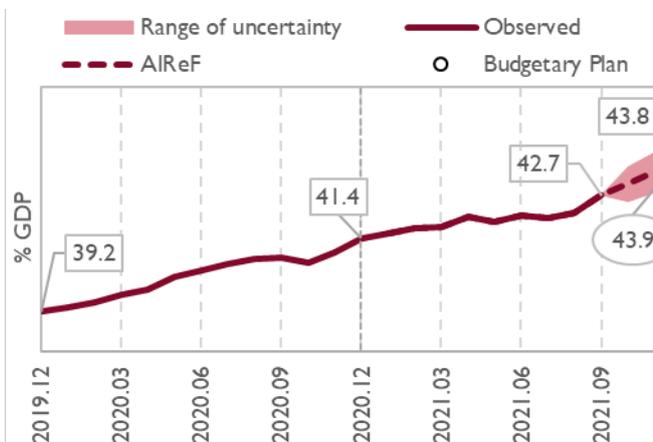
**Updated estimated GG deficit (% GDP) (AIReF)**



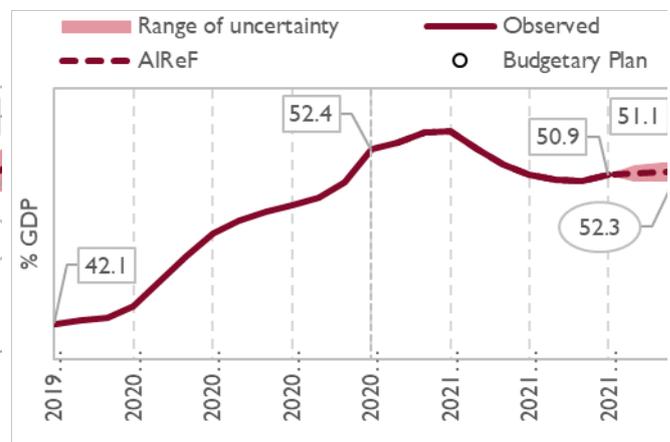
3 AIReF forecasts a sharp increase in the weight of revenue as a percentage of GDP, to stand at 43.8% of GDP. This weight would have been lower if the Recovery, Transformation and Resilience Plan (RTRP) had not been taken into account. Execution of this plan will need to be assessed over time.

4 There was a fall of 1.6 points of GDP in annualised expenditure from the end of last year to September. This sharp fall will be stabilised by the spending that will be financed through the RTRP with a neutral effect on the deficit. Expenditure is expected to reach 51.1% of GDP at the end of 2021.

**GG revenue (% GDP)**



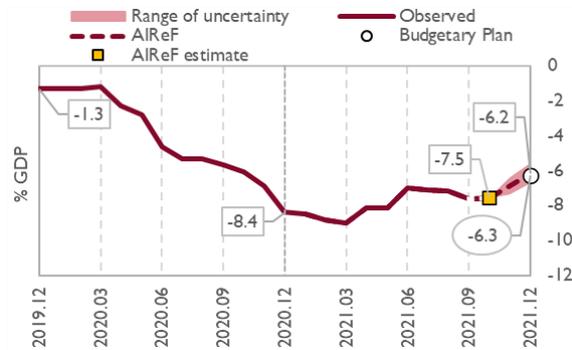
**GG expenditure (% GDP)**



# Central Government

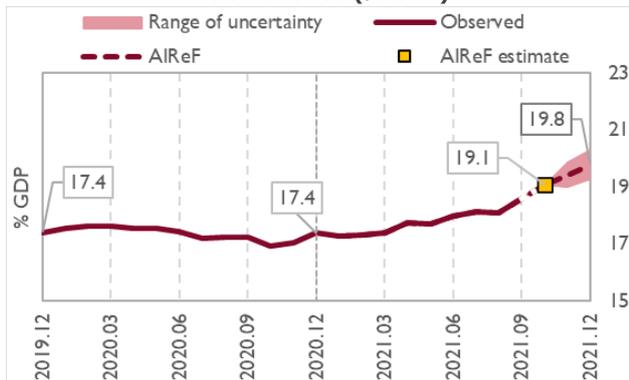
1 AIReF forecasts that the CG deficit will amount to 6.2% of GDP, 0.1 points of GDP lower than the Government's forecast included in the 2022 Budgetary Plan.

**CG deficit (% GDP)**



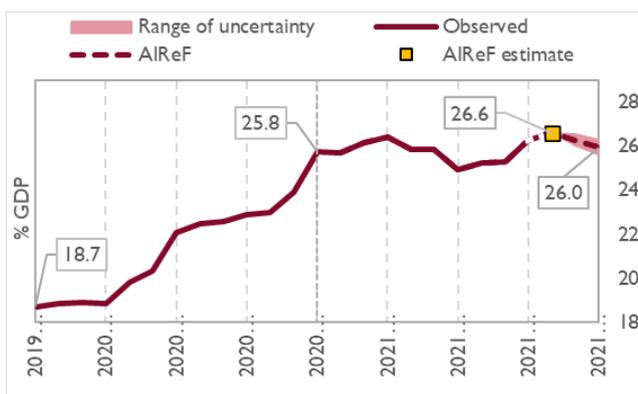
3 AIReF revises the weight of revenue over GDP upwards by 0.5 points for year-end 2021, mainly due to the positive surprise of the second instalment of Corporate Income Tax.

**CG revenue (% GDP)**



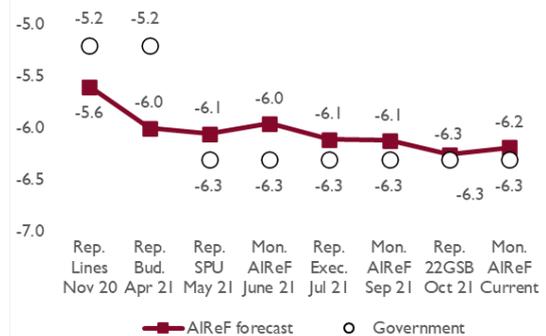
5 Expenditure is forecast to stand at 26% of GDP, 0.4 points higher than estimated in the previous month. This is mainly the result of the new approved transfer to the SSFs and, to a lesser extent, the higher interest expenditure linked to higher inflation.

**CG expenditure (% GDP)**



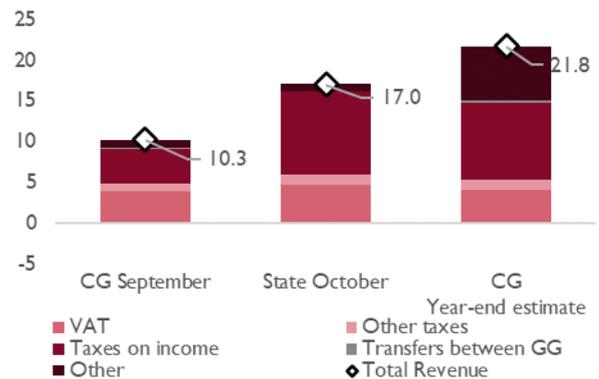
2 AIReF's new forecast incorporates the execution data from the State up to October and the latest available information, improving its previous forecast by 0.1 points to 6.2% of GDP.

**Updated estimated CG deficit (% GDP) (AIReF)**



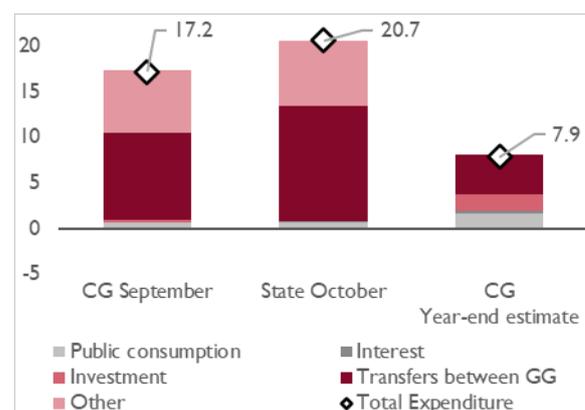
4 The cumulative revenue of the last 12 months is expected to continue its upward trend until reaching a growth rate in 2021 compared with 2020 of 21.8%. This is explained by the positive performance of tax collection in 2021 and intensified by the effect of the RTRP funds.

**CG revenue (% change)**



6 At the end of the year, the weight of expenditure on transfers between GG sub-sectors dominates. This expenditure has risen as a result of the new transfer to the SSFs to balance their accounts.

**CG expenditure (% change)**



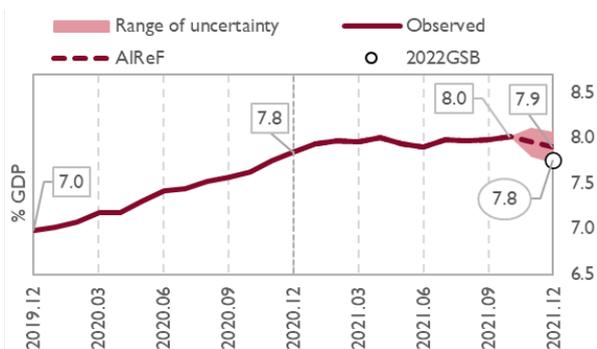
## Main revenue items

AIReF revises its revenue forecast upwards by 0.5 points following incorporation of the tax collection recorded to date. The second instalment of Corporate Income Tax explains 0.4 points of the revision as higher-than-expected revenue has been recorded, which also includes the exceptional revenue from the sale of assets of a large company. Tax revenue up to October is up by 16.3% compared with the same period of 2020. On a comparable basis with 2019, without the effect of the pandemic, the rise to October is 4.5%.

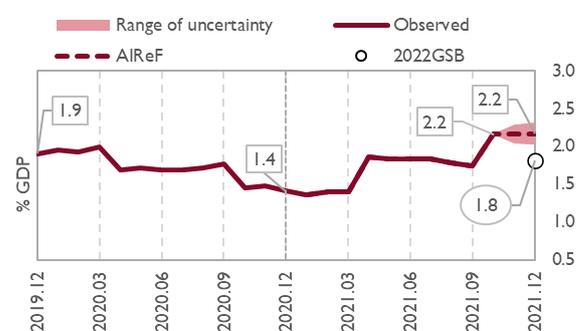
1 AIReF expects that the weight of PIT as a proportion of GDP will stand at 7.9% in 2021, 0.1 points above the figure for the previous year. PIT revenue continues to grow in October, driven by the increase in work withholdings in SMEs. Year-to-date revenue is 8.8% higher than in the same period of 2020, and the year-on-year rate of change at the end of the year is expected to stand at 7.8%.

2 AIReF revises upwards its estimate for CIT, which will reach 2.2% of GDP in 2021, 0.4 points more than in its previous forecast. The second instalment payment is recorded in October. This shows, on top of a clear recovery with respect to 2020, additional extraordinary revenue and places collection in the year to date that is 75.1% above the previous year.

PIT in Cash (% GDP)



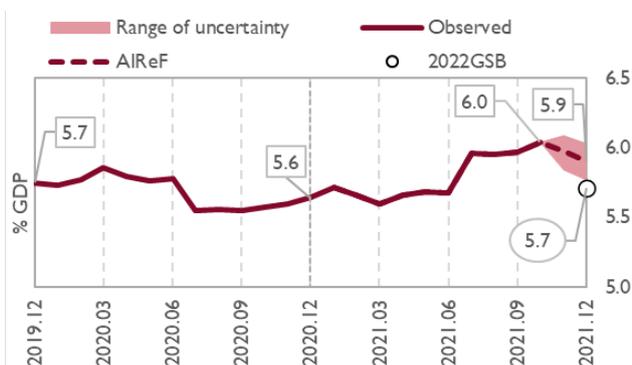
CIT in Cash (% GDP)



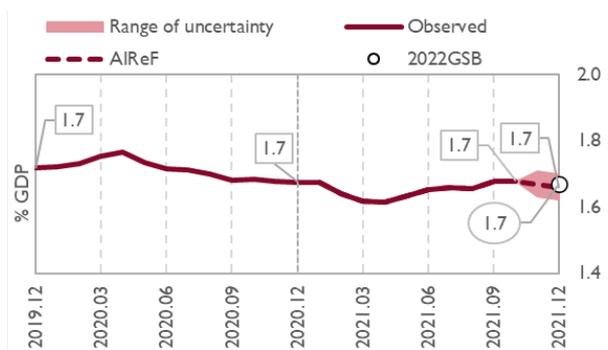
3 VAT is forecast to reach 5.9% of GDP, 0.3 points higher than in 2020. Following incorporation of the figures for October, VAT revenue in cumulative terms rises by 14.1%, despite the incorporation since June of the reduction in the rate to mitigate the rise in the price of electricity, which counteracts the effect of the measures approved in the 2021 GSB. At the end of 2021, revenue is expected to rise by 11.9%.

4 STs as a whole will stand at 1.7% of GDP. In the year to date, collection has been 6.3% higher than in the same period of 2020, mainly driven by the Hydrocarbon Tax, which is up by over 10%. Year-on-year growth at year-end 2021 is expected to stand at 6% as it will be affected in the last quarter of the year by the reduction in the rate of the Special Tax on Electricity.

VAT in Cash (% GDP)

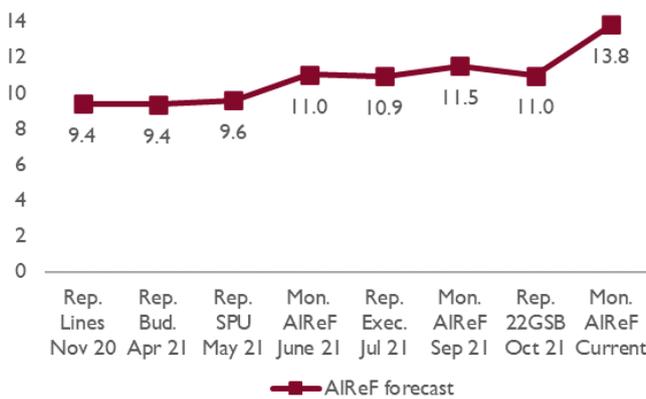


Special Taxes in Cash (% GDP)



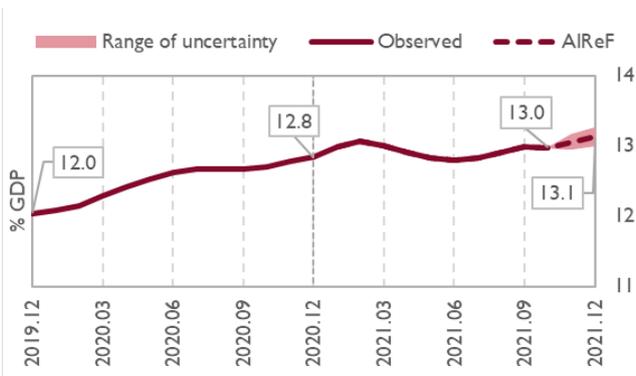
5 After incorporating the tax information recorded up to October, AIReF revises the revenue forecast in national accounting terms and estimates growth of 13.8% at year-end, 2.8 points higher than its last revision. This revision is mainly a consequence of the revenue recorded in the second instalment of Corporate Income Tax.

**Updated tax revenue forecast under the normal NA regime (% change)**



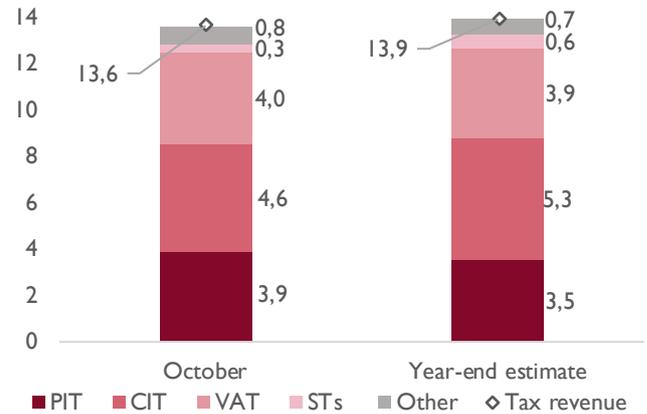
7 Social Security Fund contributions rise over the year to stand at 13.1 points of GDP. The dynamism deduced from the published collection and affiliation data means that contributions will grow above the rate of growth of GDP, thus increasing their relative proportion.

**SSF Social Contributions (% GDP)**



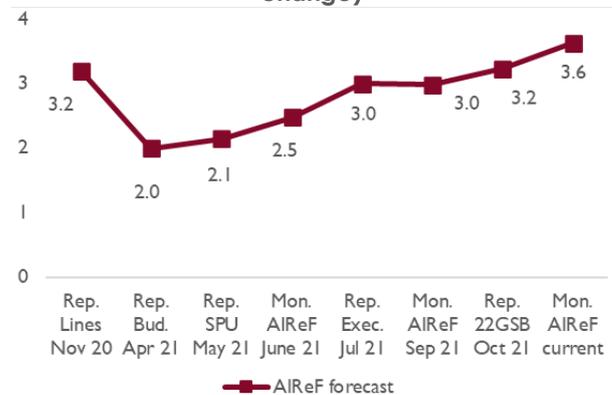
6 12-month cumulative tax revenue up to October is up by 13.6%. All taxes present a positive contribution since they mainly relate to months of recovery after the pandemic. Overall growth in cash terms of 13.9% is expected for year-end 2021, with CIT being the tax that will contribute most to the growth.

**Contributions to change. Cash AIReF (% change)**



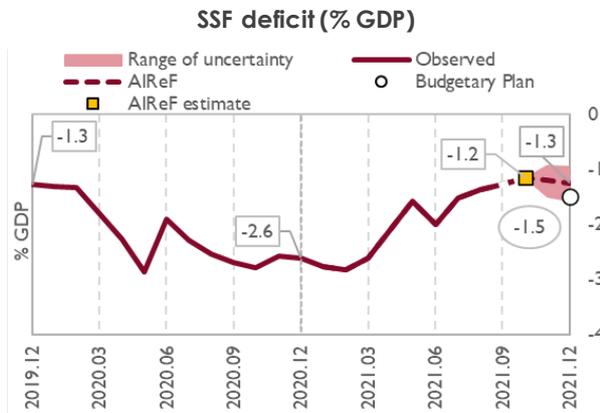
8 AIReF increases the rate of growth of contributions for the GG as a whole by 0.4 points as a result of the greater dynamism of the published data.

**Updated forecast for Social Contributions of the GG (% change)**

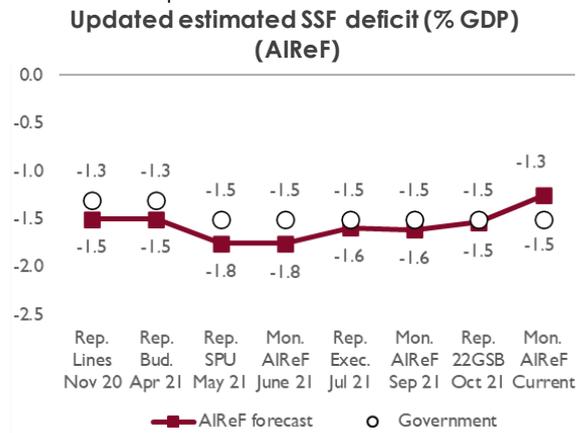


# Social Security Funds

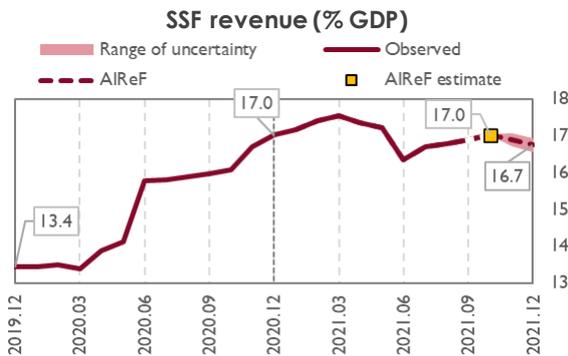
1 AIReF reduces its estimate of the SSF deficit from 1.5% to 1.3%. The expected weight of both expenditure and revenue rises, but the size of the new transfer from the CG means that the deficit falls.



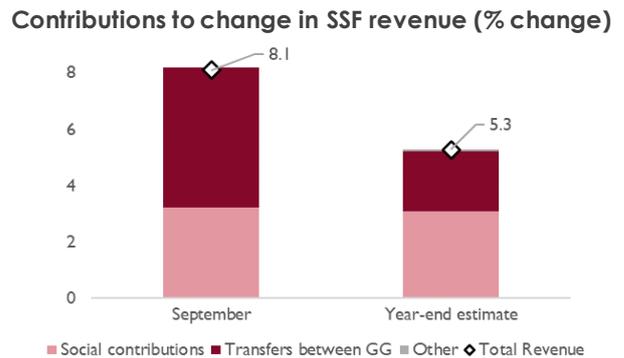
2 The forecast of the balance is reduced by more than 0.2 points compared with the most recent estimates as a result of a greater increase in the estimate of the evolution of revenue, specifically transfers from the CG, compared with that of expenditure.



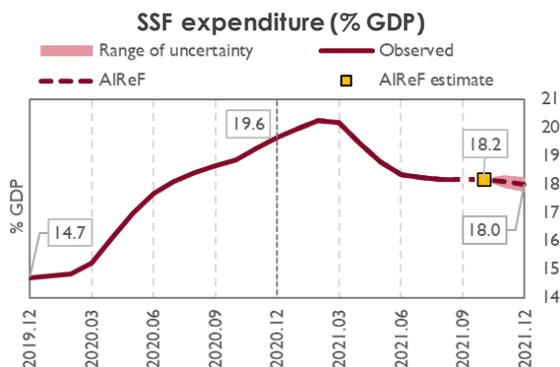
3 The weight of revenue rises by 0.4 points compared with the last estimate due to the approval of a new transfer from the CG of €5bn to finance COVID expenditure.



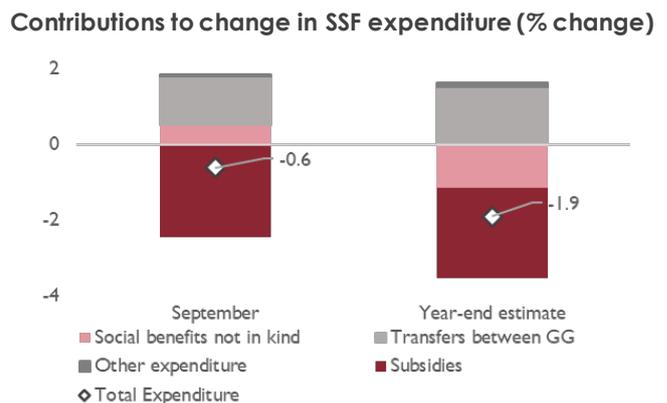
4 The new transfer received from the CG results in a revision of AIReF's estimate for the end of the year, with a positive contribution to growth expected both from transfers and from contributions.



5 The evolution of expenditure is expected to remain stable, ending the year at a weight of 18 points of GDP, which has been revised upwards with respect to the last estimate, partly as a result of the CPI also being revised upwards. The reduction in the rate of decline noted in June continues with the new data.

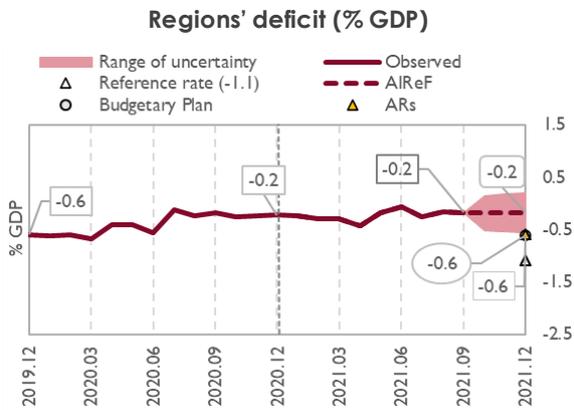


6 The cumulative data for the last 12 months up to September show a negative contribution of subsidies to growth, while social benefits continue having a positive contribution, albeit a lower one than in previous months. The contribution of social benefits is expected to maintain its downward trend.

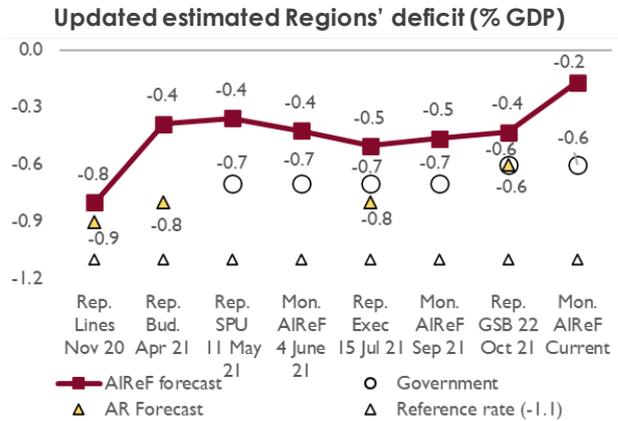


# Autonomous Regions

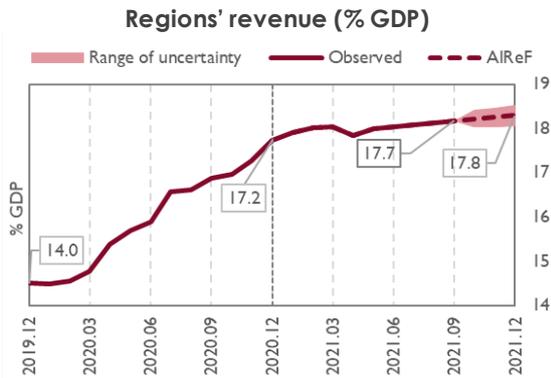
1 AIReF improves its estimates for the sub-sector by 0.2 points, forecasting a deficit of 0.2% of GDP as the neutral recording of REACT-EU funds is confirmed.



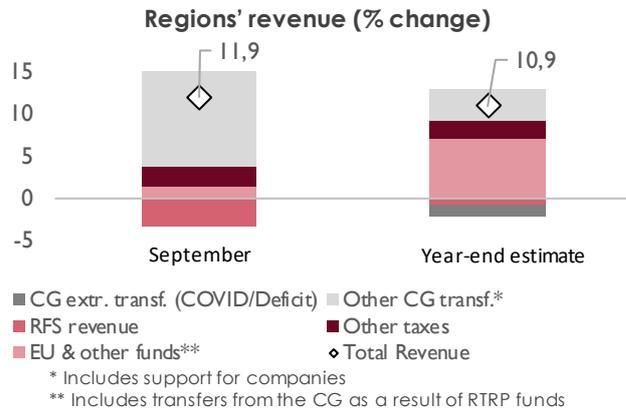
2 The forecasts reflect the improvement in revenue from the neutral recording of the REACT-EU funds, with the expected evolution of other revenue and expenditure data confirmed with the execution data to date.



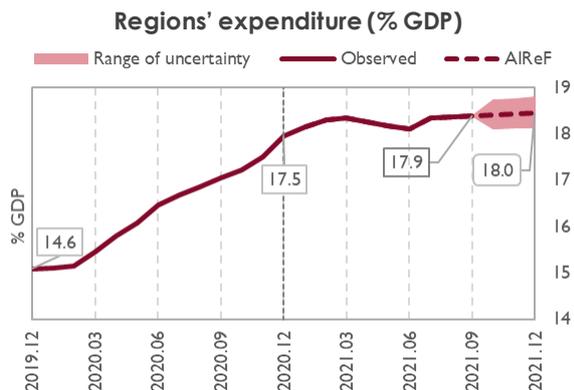
3 Revenue would grow by 10%, to stand at 17.8% of GDP, influenced by the NGEU funds and direct support for companies. Without the RTRP and support, revenue would grow by 5%, falling to 16.9% of GDP.



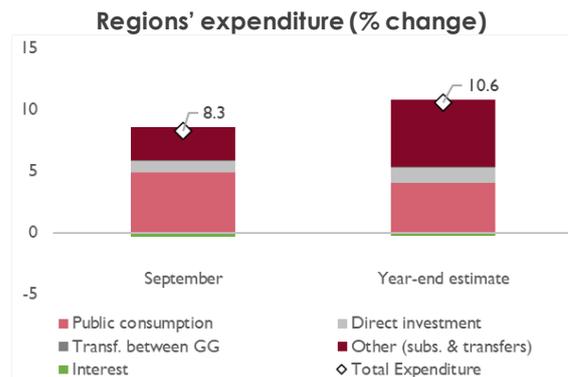
4 Over the last 12 months, the growth in revenue has been sustained by extraordinary transfers from the CSA. The weight of EU funds, both the RTRP and REACT-EU, and other taxes are expected to grow at year-end.



5 The data to September confirm the expected year-end figure: expenditure would amount to 18% of GDP including spending financed with the RTRP and State support for companies. Without them, it would grow by 5% to 17% of GDP.



6 The increase in expenditure at the end of the year is concentrated in spending, partly related to COVID, financed with NGEU funds and support for companies: subsidies and transfers to the private sector, investments and public consumption.



## Methodological note

- o AIReF's forecasts are updated monthly by incorporating the latest published data into its forecast models for taxes, contributions, unemployment benefits, pensions and interest. Any relevant, announced and approved information that may have an impact at year-end is also included.
- o The forecasts also take into account the latest data published by the General Intervention Board of the State Administration (IGAE) in National Accounting terms, as well as other monthly statistics, such as budgetary execution of the different sub-sectors (Central State Administration, Social Security System, State Public Employment Service (SEPE), Wage Guarantee Fund (FOGASA) and the Regions), monthly information on tax collection from the State Tax Administration Agency (AEAT), the pension payroll (eSTADISS database) and unemployment benefit statistics.
- o The figures included are declared in annualised terms, i.e., as a sum of the last 12 months. The series expresses the flow of what has happened or is expected for the last 12 months up to the indicated month and the date for December therefore match the annual data.
- o As a result of the health crisis, the monthly pattern of revenue and expenditure has changed dramatically, leading to a great deal of uncertainty with regard to the time distribution of the flows. In these factsheets, AIReF does not aim to estimate a total monthly, but instead focuses on what it deems relevant: the flow over the whole of 2021, highlighting how the monthly information, or new announcements, lead to a change in its own estimates.
- o Since monthly data are not published in the local sub-sector, the consolidation of the General Government total has been estimated by taking into account the pay-outs by transfer from the State to Local Governments under the financing system on a monthly basis and the payments from the Provincial Councils to the CSA on the quota basis and to the Regional Government of the Basque Country.
- o On October 6th 2020, the Council of Ministers requested activation of the escape clause provided for in the Organic Law on Budgetary Stability and Financial Stability, which, following a report from AIReF, was approved by Parliament on October 20th last year. The activation of this escape clause on account of the extraordinary emergency situation caused by the pandemic renders without effect the fiscal rules for 2021, as it did for 2020.
- o However, the deficit forecasts included by the Government in the Budgetary Plan for 2022 sent to Brussels on October 15th have been taken into account. This document forecasts a deficit for the General Government of 8.4% of GDP, with the following breakdown by sub-sector: for the Central Government (CG), 6.3% of GDP, for the Social Security Funds (SSFs), 1.5% of GDP, for the Autonomous Regions (ARs), 0.6% of GDP and a balanced budget for the Local Governments (LGs). These forecasts are mere references and they do not constitute a restriction on the deficit and therefore any failure to comply with them does not lead to the application of the corrective measures provided for in the Organic Law on Budgetary Stability and Financial Stability.
- o AIReF's range of uncertainty is estimated using a var model with two lags that includes the seasonally-adjusted series of revenue (or income) and expenditure of the sub-sector, nominal GDP, sub-sector debt over GDP and ten-year interest rates. Monte Carlo simulations are performed based on this model. The result of these simulations is sorted in percentiles, from which the bands are obtained. The range of uncertainty of the balance is obtained as the difference between the corresponding income and expenditure.
- o AIReF's Report on budgetary execution, public debt and the expenditure rule 2020, of July 15th 2020, contains an annex with the main abbreviations and acronyms used.